



IN THIS ISSUE

1 - Historical Overview & Current Activities:

Overview & Regulatory Ambit
Strategic Direction

2 – Collaboration with the Industry:

Annual Industry Briefing
Meetings with Stakeholders
Investor Education

3 - Statistical Summaries:

Securities Industry
Financial and Corporate
Service Providers
Investment Funds Industry

4 - Monitoring & Enforcement:

Authorisations
Inspections
Enforcement
Initiatives for 2010

5 - The Commission Celebrates its 15th Anniversary:

Overview of Activities
Long Service Awards

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The Securities Commission of The Bahamas (the Commission) is pleased to release its first Semi-Annual Industry Update and Statistical Digest. The Digest provides updates on the legislative, regulatory and statistical functions of the Commission. In this first issue highlights of the Commission's 15th anniversary celebrations are marked, as well as an overview of the Commission's strategic programmes and priority areas for 2010, special events and communications with the industry and the investing public.

HISTORICAL OVERVIEW OF THE COMMISSION AND ITS REGULATORY AMBIT

The Commission celebrated its 15th anniversary in June, 2010. The Commission, previously named The Securities Board, is a statutory body established pursuant to the Securities Board Act, 1995. The Mutual Funds Act, 1995 came into force in November, 1995, providing specific powers in relation to mutual funds, and vesting the Board with responsibility for its administration. The Securities Board Act, 1995 was repealed and replaced by the Securities Industry Act, 1999. The Securities Industry Act, 1999 changed the name of the Securities Board to The Securities Commission of The Bahamas and further enhanced its authority over the securities and capital markets. The Commission's authority over the investment funds sector was further expanded on December 15, 2003 with the establishment of the Investment Funds Act, 2003, which replaced the Mutual Funds Act, 1995. Most recently, the Commission was appointed Inspector of Financial and Corporate Service Providers and assumed responsibility for the administration of the Financial and Corporate Service Providers Act, 2000 effective January 1, 2008.

STRATEGIC DIRECTION AND CURRENT ACTIVITIES

The strategic direction of the Commission for the 2010 -2012 period includes initiatives to carry out risk assessment activities, enhance corporate governance throughout the organisation, improve operational efficiency, the legislative framework and the consistency and quality of ongoing operations. Specific initiatives have been outlined in the Commission's Statement of Priorities for 2010.

The majority of the Commission's work for 2010 is being dominated by the plans to implement the new draft securities legislation, the execution of risk assessment initiatives and remedial acts to address any gaps identified, and changes to database systems that support regulation and operations. These initiatives build upon goals achieved in 2009 through projects that enhanced a number of core elements of our business capabilities. Some of these projects included the pre-Financial Sector Assessment Program (FSAP) internal review of the securities industry's regulatory framework, as well as an improved internal audit function. Additional highlights of the 2010 Operational Plans include focus on the following areas:

- Enhancement of internal systems and the work environment to support employee relations by reviewing and revising the Commission's human resources tools.
- Advancement of the Governance of the Commission by developing a comprehensive corporate structure at the Board level and throughout the organisation.
- Improvement in the efficiency of the Commission through a multi-fold initiative involving targeted training programs; relationship building with industry participants and systems that foster better work practices.
- Commitment to consistent, high standards of ongoing operations by focusing on critical success factors identified: team work, quality human resources and efficient and effective execution of tasks.



Market Surveillance Team

Investor Education

The Commission views investor education as an essential part of its mandate as it is our belief that an educated investor will be less susceptible to fraud, and other illegal activities.

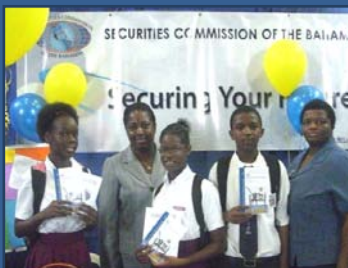
During the first half of the year, the Commission has been active in its Investor Education initiatives by working alongside various private sector investor education programmes, specifically CFAL's Junior Investor Education Program and the Ministry of Youth, Sports and Culture's Junior Achievement Bahamas (JA) Programme.

The joint initiative with CFAL's Programme included participation by the Commission in the official launch of the Program and subsequent participation in visits with all 10 schools involved in the Program. Overall, the Commission connected with nearly 140 students during these visits through interactive discussions.

Another successful joint initiative was the Commission's participation in the JA Programme. The Commission participated in the programme's launch; hosted Junior Achievement Companies and Achievers at the Commission, and attended and gave remarks at the programme's Dream Night, which brought together over 200 students participating in the programme.



The Commission participates in a CFAL Junior Investor activity.



Commission staff and students at the Ministry of Education's Careers Fest

Streamlining of the licensing process is another area that the Commission has focused on enhancing. Authorization has now been given to the Executive Director to administer all aspects of the SIA, 1999 and the IFA, 2003. This authority, however, will not include enforcement matters. Another development in the licensing process is the inclusion of several SMART Fund Models (Models 4, 5 and 6) into the Fast Tracking Process, enabling all Funds catering to professional investors to apply under the expedited process. Improvement to the Commission's internal database systems to support the processing of applications has also taken place, which improves the Commission's ability to track the progress of applications and all supporting documents, thus increasing the efficiency of the turn-around time for the processing of complete applications.

Legislative Developments

Securities Legislation

The draft securities legislation, including both the Act and Regulations, are under final review. Public consultation, sector-specific focus groups and media coverage were held as a part of the Commission's goal of engaging a wide range of industry participants and the general public in the review process. The development of Rules and Guidelines to support the new legislation are underway, including regulatory capital standards, the fee schedule, and transitional provisions.

Investment Funds Legislation

Amendments to the Investment Funds Legislation and SMART Fund Rules were passed by Cabinet on March 16, 2010. These amendments to the IFA, 2003 include amending the definitions of 'Investment Fund', 'Professional Fund' and 'Recognised Foreign Fund', and extending the filing period for annual audited financial statements from four months to six months. The SMART Fund Rule pertaining to Model 4 is being amended to clarify its application and a Rule was passed to establish the SMART Fund Model 6, which brought into existence a side pocket-type fund model.

Legislative Reviews Slated for 2010

In an effort to reduce exposures to regulatory, operational and other systematic risks, the Commission has undertaken to conduct comprehensive reviews of the IFA, 2003 and FCSPA, 2000. These reviews will be done in collaboration with relevant industry segments and by benchmarking the securities and capital markets industry standards as set out in the International Organization of Securities Commission's (IOSCO) Objectives and Principles of Securities Legislation.

COLLABORATION WITH INDUSTRY PARTICIPANTS

Industry Briefing

The Commission hosted its 4th Annual Industry Briefing at the British Colonial Hilton, in early February this year. This event is designed to bring together capital market stakeholders with senior management of the Commission to exchange ideas on developments and challenges within the market.

Annual Review Meeting with the Bahamas Financial Services Board (BFSB)

This annual meeting, held in February, provides a forum to discuss matters of mutual concern between BFSB and the Commission. It is also an opportunity to discuss new initiatives and to establish priority areas that require collaborative effort. The Commission and BFSB meet regularly throughout the year to discuss many other matters on the development of the financial services sector.

Meeting with the Association of International Banks & Trust Companies (AIBT)

The Commission met with representatives from AIBT, in February, to address concerns of AIBT relative to the draft Securities Industry Act.

COMMUNICATING WITH THE PUBLIC

Press Releases and Public Notices

Press Releases were issued on: IOSCO/FSB Monitoring of Securities Commission of The Bahamas Information Exchange Regime Ceased; Securities Commission of The Bahamas Holds 4th Annual Industry Briefing; New Initiatives for the Authorisations Department for 2010; Securities Commission 2010 Statement of Priorities.

Public Notices were issued on: Taurus Global Markets Ltd.; The Hastings Capital Group; Hi-Tech America Development Company; Stock Exchange of The Caribbean & Solaris Holding International Inc.

Table 1 – Registered Firms in the Securities Industry

Category	31 Dec.2007	31 Dec.2008	31 Dec. 2009	30 Jun. 2010
Broker-Dealer I	18	16	17	17
Broker-Dealer II	49	45	47	49
Securities Investment Advisor	44	46	48	49
Total	111	107	112	115

Table 2 – Financial and Corporate Service Providers

Category		31 Dec. 2008	31 Dec. 2009	30 Jun. 2010
Company	Renewal	103	115	110
	New	23	9	4
Partnership	Renewal	29	30	31
	New	5	1	2
Individual	Renewal	97	99	93
	New	9	13	10
Total		266	267	250

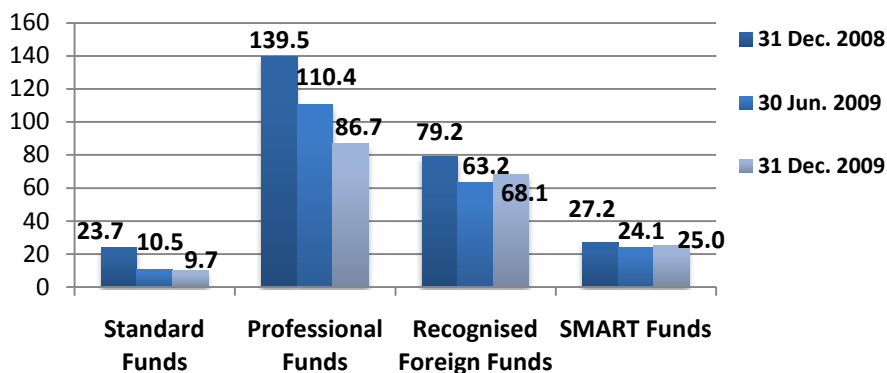
Table 3 – The Investment Funds Industry, Investment Fund Administrators

Category	31 Dec. 2007	31 Dec. 2008	31 Dec. 2009	30 Jun. 2010
Unrestricted Investment Fund Administrator	35	36	34	34
Restricted Investment Fund Administrator	27	27	27	27
Exempt Investment Fund Administrator	2	3	3	2
Total	64	66	64	63

Table 4 – The Investment Funds Industry, Investment Funds

Fund Category	31 Dec. 2007	31 Dec. 2008	31 Dec. 2009	30 Jun. 2010
Standard Funds	144	97	82	79
Professional Funds	286	298	259	252
Recognised Foreign Funds	206	231	183	180
SMART Funds	146	177	264	286
Total	782	803	788	797

Figure 1 – Net Asset Values, By Fund Type (\$ billions)



The Securities Industry

Table 1 illustrates a decline in the number of Broker-Dealers from yearend 2007 to yearend 2008, which was a result of merger activity by registered Bank & Trust companies during that period. However, from yearend 2009 to the end of the second quarter of 2010, the overall number of Broker-Dealers increased slightly from 47 to 49. Growth over the 2007 to 2009 period in the number of Securities Investment Advisors is mainly attributable to an increase in non-Bank & Trust companies or “stand-alones” registering as Securities Investment Advisors.

Financial and Corporate Service Providers

There was no significant change in the overall number of Financial and Corporate Service Providers (FCSP) from the end of 2008 to the end of 2009, as shown in **Table 2**. There were 250 licensed FCSPs as at the end of the second quarter of 2010.

Investment Funds Industry

The number of authorized Investment Fund Administrators in all categories has remained relatively stable from December 2007 to the end of the second quarter of 2010, as represented in **Table 3**. In 2009 there was an overall decrease by two as a result of the closure or relocation of Unrestricted Administrators. In the first half of 2010, there has been a reduction of one Exempt Administrator.

Table 4 shows the number of funds at yearend 2007 to yearend 2009, and at June 30, 2010. Every fund category, except the SMART Fund, experienced a decline in numbers, representing a shift away from the previous high rates of growth observed in the other categories in previous periods.

Figure 1 illustrates the decrease in total net asset values (NAVs) reported from \$269.6 billion at the period ending December 31, 2008 to \$208.2 billion in June 2009; and further to \$189.5 billion at the end of December 31, 2009. This decline of 30% between yearend 2008 and the same period in 2009 can be attributed to the negative impact of the global financial crisis on asset values and a slight reduction in the number of authorized funds.

Authorisations

The Commission received a total of 202 applications in 2009 from entities for registration as Broker-dealers, Securities Investment Advisors, Investment Fund Administrators and Investment Funds.

Table 6 provides a breakdown of applications received and approved in 2009.

The total number of 'Applications Approved' encompasses not only applications received in 2009, but also applications received in the previous year, which were under consideration at yearend 2008.

In addition, the number of 'Applications Approved' includes investment funds licensed by Unrestricted Investment Fund Administrators. Overall, a total of 196 applicants were authorised in the categories listed below.

Table 6 – Applications Received and Approved

Category	Applications Received	Applications Approved
Broker-dealer Class I	2	2
Broker-dealer Class II	1	2
Securities Industry Advisor	10	5
Unrestricted Investment Fund Administrator	2	2
Restricted Investment Fund Administrator	2	2
Exempt Investment Fund Administrator	0	0
Standard Fund	6	1
Professional Fund	35	34
Recognised Foreign Fund	21	26
SMART Fund	120	121
Non-Bahamas Based Fund	3	1
Total	202	196

Inspections

The Commission completed 23 on-site inspections during 2009, of which 3 were inspections conducted jointly with the Central Bank of The Bahamas (Central Bank) for entities licensed by both regulatory bodies. This is shown in Table 7.

Table 7 – Number of Inspections

Inspection Type	Inspections
Routine Inspection	20
Joint Inspection*	3
Total	23

* Joint inspection with the Central Bank

The 23 on-site inspections conducted captured a total of 31 licensees that were examined. This is the result of entities holding multiple licences. Seven of the entities examined were multiple licence-holders. This is reflected in Table 8 below.

Table 8 – Inspections by Legislation Type

Legislation	Inspections
Securities Industry Act, 1999	11
Investment Funds Act, 2003	20
Total	31

Initiatives for the Inspections Department so far this year include the revision of the Joint Protocol with the Central Bank to facilitate the smooth execution of procedures, advancement toward a more risk-based framework and the execution of 30 on-site examinations, of which four are to be joint examinations with the Central Bank. As at June 30, 2009, the Commission had commenced 11 on-site examinations, of which 3 were joint inspections with the Central Bank. Of the 11 entities, 4 were multiple licence holders, resulting in a total of 15 examinations.

Examinations under the FCSPA, 2000 will be incorporated into the onsite examination programme during the latter half of 2010 and will be conducted on a 'for cause' basis.

Enforcement

There were a total of 7 enforcement matters addressed in 2009, of which 3 were litigation matters; 3 administrative matters, of which one is mid-way through the disciplinary process; and the one criminal matter was transferred to the Office of the Attorney General.

Table 9 – Enforcement Matters

Enforcement Type	Enforcement
Litigation	3
Administrative	3
Criminal	1

Monitoring & Enforcement Initiatives for 2010:

Enhancements to Monitoring and Oversight Activities

A review of the Commission's Monitoring and Oversight Programme is scheduled to be completed by the end of 2010. Advanced development of the this Programme will position the Commission to improve relations with registrants and licensees, deepen the understanding of the markets and better analyse the types of data collected from all categories of registrants.

Physical Presence Standards under the SIA, 1999

The Commission issued its Statement of Practice on Physical Presence Standards, which provides guidance on the physical presence standards for licensees and registrants under the SIA, 1999. The Statement of Practice will be reissued in September 2010 as a Guideline.

Developments under the FCSPA, 2000

High on the Commission's agenda for 2010 is absorbing all registrants, both Individuals and Companies, under the FCSPA, 2000 into its full regulatory oversight programme. This includes authorisations, surveillance and inspections. One of the regulatory tools that will be used to facilitate oversight is an Annual Information Update Form, on which all material changes to a FCSP licensee should be reported to the Commission.

Additional developments include licence certificates now being granted in perpetuity, rather than being re-issued annually. Resulting from this change is the dissemination of an annual fee renewal notification to licensees.



The Commission Celebrates Its 15th Anniversary



Staff of The Commission

June 20, 2010 marked the 15th anniversary of the Commission. Originally established as The Securities Board, which in its early days operated out of the Ministry of Finance, the Commission has grown in order to keep pace with developments in the local and international capital markets. During this period, the Commission's scope of activities also expanded to support its mandate and to uphold a sound regulatory framework. The functions of the Commission are carried out by the various departments, which include .Authorisations, Market Surveillance, Inspections, Policy and Research, the Executive, Corporate Affairs and the Office of Legal Counsel.

The Commission also forms a part of the international securities markets regulatory landscape. The Commission was granted membership to the International Organization of

Securities Commissions (IOSCO) in September 1996. IOSCO's membership comprises securities regulators and other similar regulatory agencies from various countries throughout the world. On June 10, 2009 it was announced at IOSCO's 34th Annual Meeting that the Commission became a Signatory 'B' to the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and Exchange of Information (the MMOU) established by IOSCO.

In addition to its membership in IOSCO, the Commission was confirmed as a member of the Council of Securities Regulators of the Americas (COSRA), at their annual meeting in Santiago, Chile in June 1992, and is an active participant in this body.

The Commission also co-operates with local regulators and is a member of the Group of Financial Services Regulators, which is comprised of regulators within the financial services sector of The Bahamas. This Group was established to focus on cross-cutting financial services matters and the harmonization of the regulatory regime in the country.

A week of activities was held to mark the 15th Anniversary of the Securities Commission. The events included: 21 June – TV show appearance on Bahamas at Sunrise; 23 June – TV show appearance on the Platform; 24 June – Radio Show Appearance on Jeffery; 27 June Church Service and Luncheon honouring staff.

During the luncheon, employees who have been in service with the Commission for 5 years and over were recognised with long-service awards. Those employees that received awards are presented in the table below.

TEN YEARS OF SERVICE AND MORE

Hillary Deveaux, Executive Director

Mechelle Martinborough, Legal Counsel

Peggy Knowles, Deputy Manager, Corporate Affairs Department

Janet Major, Senior Officer, Corporate Affairs Department

Benson Russell, Senior Investigative Officer, Office of Legal Counsel

FIVE AND MORE YEARS OF SERVICE

Kaylisa Adderley, Senior Officer, Authorizations Department

Alysia Archer- Colebrooke, Assistant to Executive Director

Sandra Duncombe, Acting Manager, Market Surveillance Department

Kadesha Hanna, Senior Officer, Market Surveillance Department

Christine Lundy, Officer, Corporate Affairs Department

Charles McKenzie, Manager, IT Unit

Shericka Penn, Senior Administrative Assistant, Office of Legal Counsel

Dwynette Roberts, Administrative Assistant, Authorizations Department

Narissa Taylor, Assistant Manager, Market Surveillance Department

Eboney Wright-Wilson, Senior Officer, Authorizations Department



Mr. Deveaux receives a long service award from the Chairman, Philip Stubbs, for 13 years of service at the Commission.

Securities Commission of The Bahamas



The Bahamas

